

Like Nation, Growth in Az. Slowing

*But State Still Projected
to Gain Nearly 150,000
Jobs Over Two Years*

One year ago, the U.S. economy was at its zenith — the New Economy was forging forward into the new millennium with a bang! Scarcely had anyone at the time thought that a bear market was entering the picture.

But up to then, investors and bankers were chasing everything with a “high-tech,” “Internet,” and “IPO” spin on it. This was a time when seldom did investors ask about net profit; rather, they focused on such terms as “multiples” and “capitalization.”

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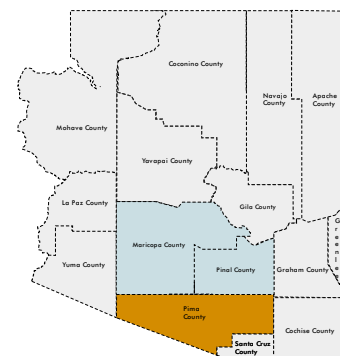
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Forecast



'01-'02



Major Arizona Subregions

Many of these high-flying companies with clearly inflated stocks had never experienced a net profit. Moreover, many were never expected to realize one. Money was abundant and investor gains were most often sought by riding the upward wave of share appreciation — some 30, 40, and greater times the company’s earnings. Investment bankers raced to support newly created companies to the market, eager to watch yet another IPO’s (initial public offering’s) share price shoot upward toward the moon. This, however, is an example of much of what Alan Greenspan, chairman of the Federal Open Market Committee (FOMC) referred to as “irrational exuberance,” a level of behavior about which he stressed serious concern and caution.

At the time, the FOMC tightened monetary policy to head off inflation by raising key rates (federal reserve

funds rate and the prime rate). For much of the year, monetary policy kept key rates at relatively high levels (6.5 percent) so as to temper the economy into submission — aiming to tame the raging bull market. Some now question whether monetary policy in 2000 was kept too tight for so long that the bull market turned to bear. But, as you might expect, it’s not that simple.

Throughout the rest of 2000, consumer optimism and the NASDAQ stock average would gradually sink to unanticipated lows. The once high-flying tech stocks either went bust or were now representing a mere paltry fraction of the value that they earlier boasted.

The year 2000 was a year in which businesses, investors, job seekers and the employed were highly — some would argue overly — optimistic. Consumers had little to fear, except

for potentially runaway fuel prices at the pump. But, clearly, things were changing. And not only had things begun to change, but it was also a presidential election year, and further confusion set in as the buzz words on the street switched from "IPOs" and "dot-com" to "dimpled and impregnated chad." In all, it was quite a year.

Like so many other areas across the nation, Arizona rode throughout the roaring '90s and 2000 on the tracks of a high-tech express train. Many jobs were created, those of high-tech and certainly many others. But then, like everyone else, Arizonans felt the effects of the slowdown in the second half of 2000, in terms of jobs being lost and the stock market being pummeled to new lows. Arizona's economy, however, appeared to weather the storm better than most parts of the country and should come out of the slowdown in fairly good shape.

Arizona

According to Arizona's Department of Economic Security, Research Administration (RA), Arizona is expected to add nearly 149,000 jobs over the next two years (2001-02). Service-producing industries are expected to grow by more than 142,000 jobs, whereas the goods-producing industries are projected to add more than 6,000.

The Group, a national economic forecasting business, expects that the national economy will grow by just below 1 percent each of the next two years. Notably, construction jobs are also expected to continue growing — by just under 2 percent each of the two years. Manufacturing pares jobs in 2001, yet grows again in 2002. Overall, WEFA predicts the U.S. economy will grow by more than 2 million jobs over the two-year period.

RA projects nonfarm payroll employment in the Phoenix-Mesa metropolitan area will grow by nearly 110,000 during the forecast period,

Figure 1

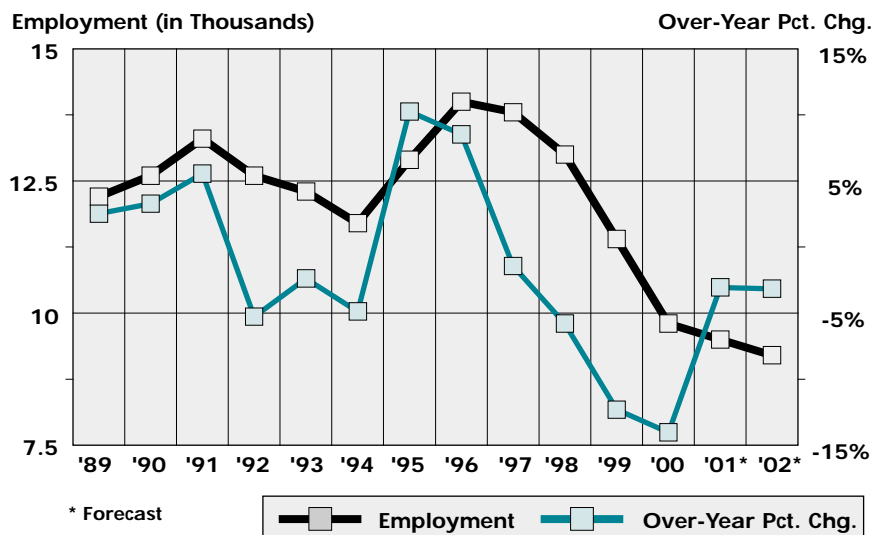
Arizona Manufacturing Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Figure 2

Arizona Mining Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



* Forecast

Source: Arizona Dept. of Economic Security, Research Administration, March 2001

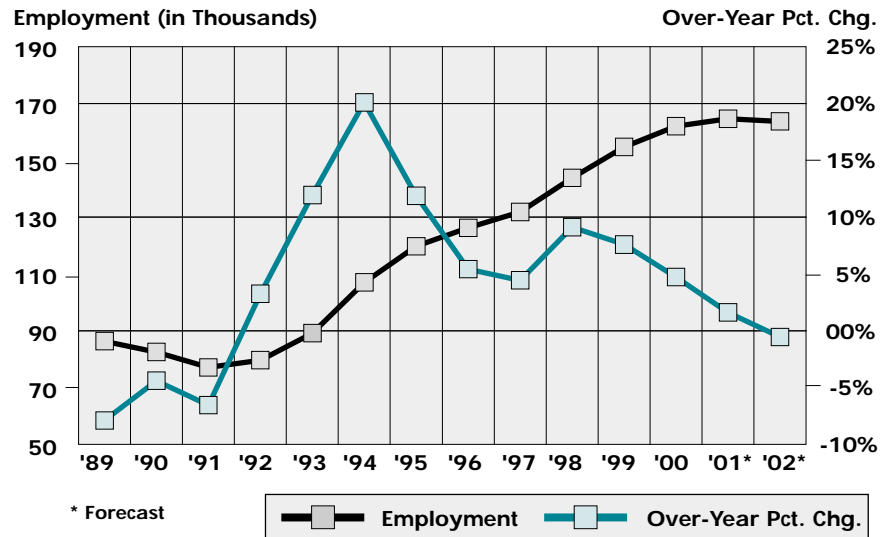
while payroll jobs in the Tucson metropolitan area are projected to increase by 19,000. Meanwhile, the combined non-metropolitan economies are projected to add nearly 20,000 jobs over the same two-year period.

Overall, Arizona is expected to experience some of the slowdown emanating from the national economy, particularly in 2001. While the slowing doesn't suggest a serious collapse due to a fundamental economic weakness, Arizona is expected to share in some of what is occurring throughout the national and global economies. Increased job growth is expected in 2002, though even the forecasted pace is slower than recent years have averaged. As a result, RA's forecast shows that Arizona's economy will employ nearly 2.4 million workers by the end of 2002, an increase of about 150,000 (6.6 percent) over the two-year period.

Arizona's construction industry is projected to grow by 2,600 jobs in 2001. Demand for single- and multi-family housing is expected to be favorable, though growth will not be at the break-neck pace of the '90s. Notably, permit activity showed a significant decline throughout 2000. Mortgage rates are expected to provide support for purchases of new housing, while also providing support for the remodeling and renovation of pre-existing homes. During this forecast period, both general and heavy construction sectors are expected to begin reducing employment. RA projections call for an increase of 1.6 percent in jobs in 2001, with a contraction of five-tenths of one percentage point in 2002. Metropolitan Tucson is projected to show declines in each of the two years, while the Phoenix-Mesa metropolitan area construction is expected to possibly experience that last couple of positive years before eventually heading slowly downward. Nevertheless, construction employment more than dou-

Figure 3

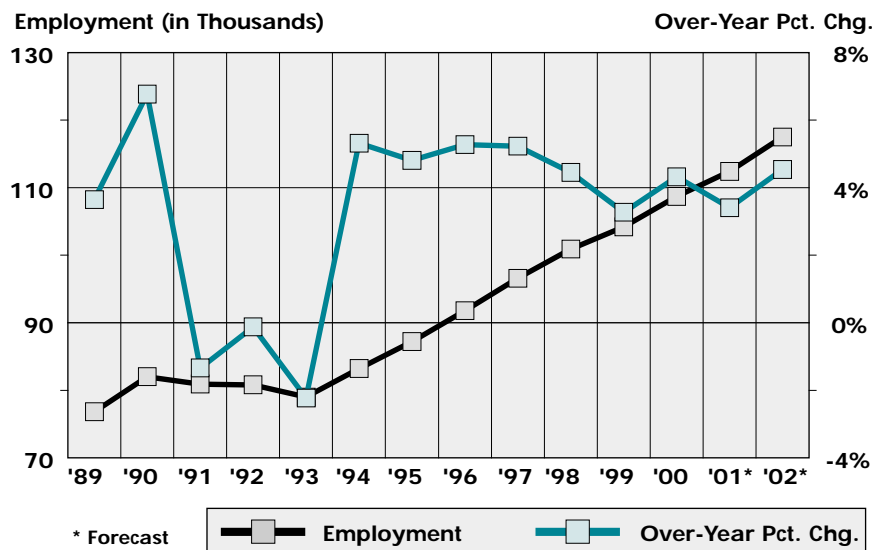
Arizona Construction Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Figure 4

Arizona Transportation, Communication, and Public Utilities Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

bled in size in just 10 years. And while a couple of its component sectors are expected to pare jobs, overall the industry is expected to sustain a sizable base of jobs as the cycle slowly matures and unwinds.

Manufacturing jobs are perhaps under the most intense spotlight as we proceed into 2001. Numerous headlines have announced layoffs by global, national and, several large Arizona-based firms. While the economy is comprised of roughly 116,000 firms, mostly small and medium size, news about the large companies most often catches the public's attention. While cutbacks, layoffs, and hiring freezes have been announced, many of the large companies are attempting to downsize carefully, and many through attrition — but not in all cases.

RA projects that manufacturing will grow by 5,000 jobs over the next two years. Durable-goods manufacturing is expected to more than offset the general weakness in the nondurable-goods industries over the period. Machinery and electrical sectors are expected to continue growing, though at a much slower pace in 2001 than in 2002. Job growth in 2001 is expected to slow to roughly one-half the rate of 2000, and then return to a rate of 1.5 percent in 2001.

Arizona can expect favorable trade relationships with Mexico over the forecast horizon. This is especially significant considering 2000 was another record year for Arizona's export trade, which totaled \$14.3 billion. Mexico purchased \$4.6 billion worth of goods and services from Arizona, a 43 percent increase over the previous record set in 1999. Exports of electrical and electronic machinery products — the top products purchased from Arizona — increased 20 percent over 1999. The other top ranking categories of products purchased were machinery (up 9.5 percent), aircraft/spacecraft (up 53 percent), optics/medical equipment (up 14 percent), and plastics (up 39 percent). While Mexico is not

Figure 5

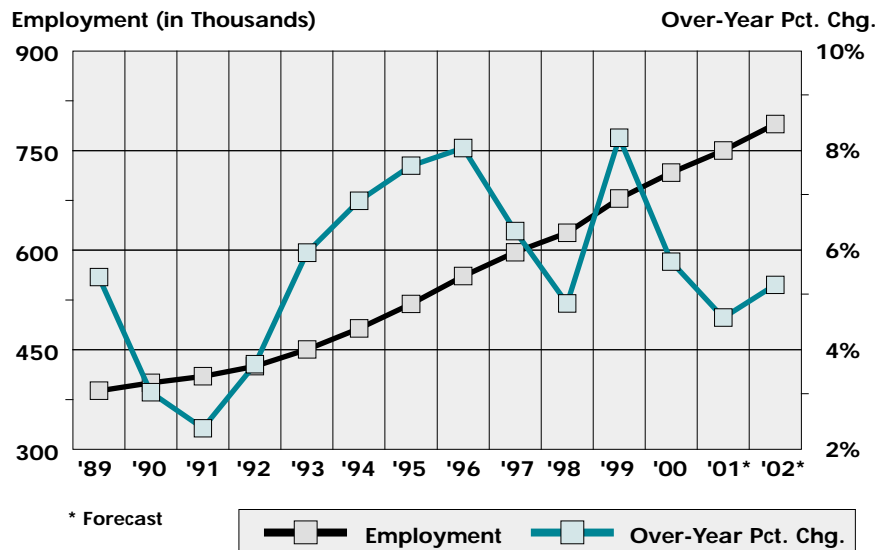
Arizona Finance, Insurance, and Real Estate Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Figure 6

Arizona Services Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

the only country with which Arizona engages in a healthy trade relationship, that relationship has been somewhat overshadowed lately with events transpiring in Japan, Europe and elsewhere.

Mining is forecast to continue slowly paring jobs over the two-year horizon. The impact to mining industry employment will be a loss of 600 jobs over the next two years. Companies with a global presence have been under general pressure to reduce high-cost jobs in this industry, given the low cost of labor in foreign countries. Growing inventories further exacerbate industry pricing pressures on the global markets.

Technology and innovation are, and have been, the other pressures, adding to increased productivity at the expense of jobs. (Though to some varied extent, mining operations still require human skills and knowledge.) Nevertheless, much has changed in this industry. In the mid-'70s, this industry represented nearly 3.25 percent of all jobs in Arizona. But because of technological innovation and lower cost of labor outside the U.S., by the end of 2000, this industry represented slightly more than four-tenths of one percent of Arizona jobs.

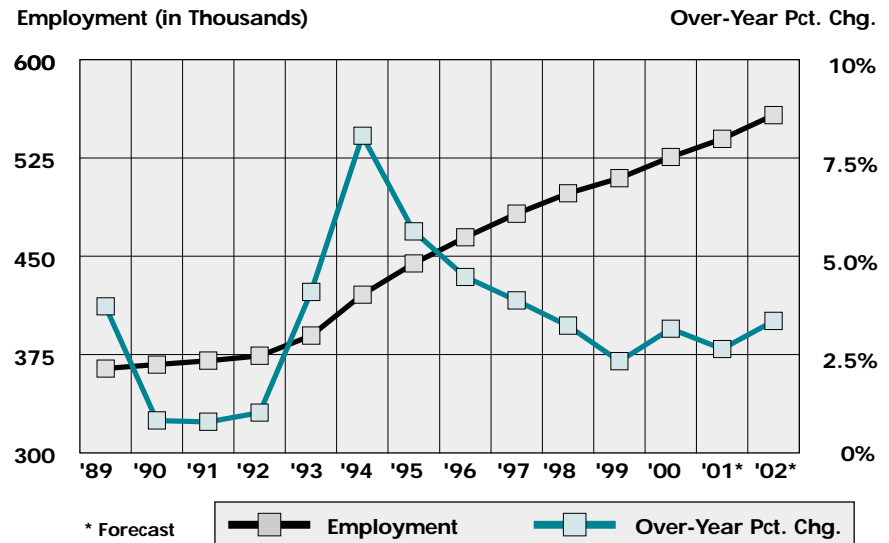
Not surprisingly, RA projects that services will add the greatest number of jobs for any one major industry group in Arizona. RA expects growth of slightly more than 73,000 jobs over the 2001-02 period. Growth rates over the two years drop from 8.3 percent in '99 and 5.8 percent in 2000 to 4.6 percent in 2001 and 5.3 percent in 2002.

Health services and education services will continue to sustain strong growth over the period, though at a slower pace than in recent years. The explosive business services sector will grow at more subdued single-digit rates.

Trade should reign in the second largest number of jobs during the two years. RA's two-year forecast shows

Figure 7

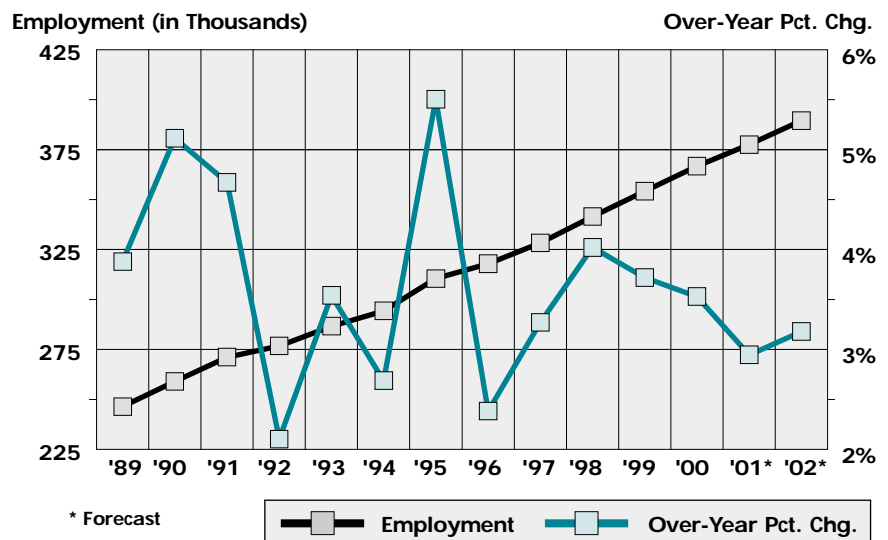
Arizona Trade Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Figure 8

Arizona Government Employment and Over-the-Year Percentage Change, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

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growth of 32,000 jobs, with nearly 14,000 of those expected in 2001 and slightly more than 18,000 in 2002. Although growth is projected in both wholesale and retail trade industries over the two-year period, lagging consumer sentiment will slow growth in the first half of 2001, before improving later in the year.

Arizona's finance, insurance, and real estate (FIRE) group is projected to add 5,700 jobs during the forecast period. However, the pace of growth is expected to be the slowest since 1995, falling to an average rate of roughly 2 percent. This is a stark contrast to the growth rate of 9 percent in '97 and near 3 percent the last couple of years.

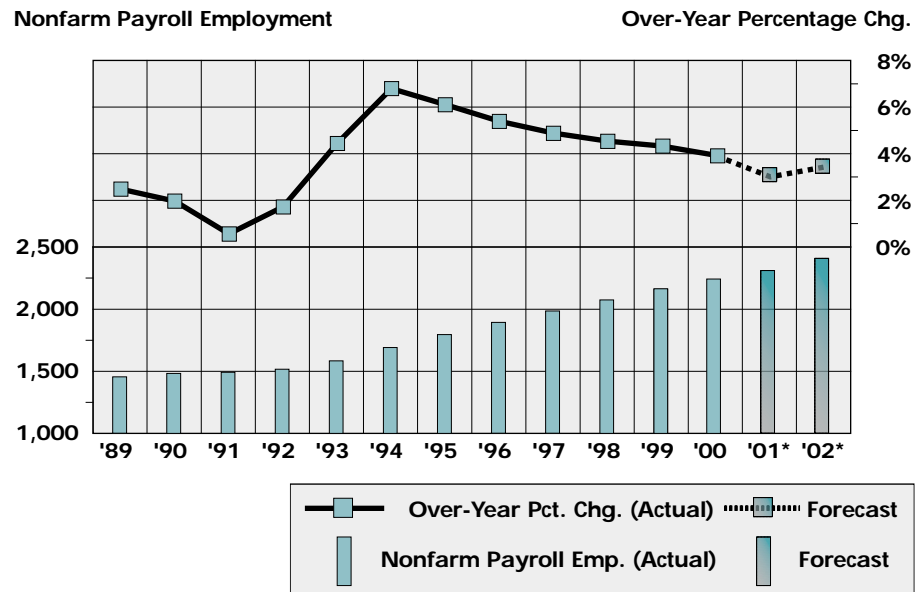
The transportation, communications, and public utilities (TCPU) group is expected to average nearly 4 percent growth for each of the next two years. RA's forecast calls for an increase of approximately 8,800 jobs in TCPU. This is clearly a group still to watch, in part due to the as yet uncertain forces of energy deregulation, the rising new technologies in communications, and the possible mergers and other dynamics of the transportation industry.

Government employment is projected to increase by nearly 23,000 over the two-year forecast. Accounting for the most jobs, education is projected to grow the fastest among related sectors. The combined state and local government group is projected to maintain modest growth levels, while federal government should show little growth, partly due to the drop-off of employment related to the end of U.S. Census operations in the Phoenix area.

RA remains convinced that there is no recession for Arizona on the forecast horizon. While Arizona is expected to share in some of the adjustment processes taking place on the national and global stage, the resulting effects to Arizona are not

Figure 9

Arizona Nonfarm Payroll Employment Growth Rates, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Table 1

Arizona Nonfarm Payroll Employment Growth Rates, Actual (2000) and Projected (2001-2002)

(Annual Averages, in Thousands)

	2000	Growth Rate	2001	Growth Rate	2002	Growth Rate
Nonfarm Payroll^(a)	2,248.3	3.9%	2,316.6	3.0%	2,396.8	3.5%
Goods-Producing	386.7	2.4	390.8	1.1	392.8	0.5
Manufacturing	214.9	1.6	216.7	0.8	219.9	1.5
Mining	9.8	-14.0	9.5	-3.1	9.2	-3.2
Construction	162.0	4.7	164.6	1.6	163.7	-0.5
Service-Producing	1,861.6	4.3	1,925.8	3.5	2,004.0	4.1
TCPU ^(b,c)	108.7	4.3	112.4	3.4	117.5	4.5
Trade	525.7	3.2	539.6	2.6	557.7	
3.4						
FIRE ^(d)	143.6	2.9	146.1	1.7	149.3	2.2
Services	716.9	5.8	750.2	4.6	790.0	5.3
Government ^(c)	366.7	3.5	377.5	2.9	389.5	3.2

Notes: a) Totals may not add up exactly due to rounding
b) Transportation, Communications, and Public Utilities
c) For forecasting purposes, Salt River Project is included in TCPU instead of Government
d) Finance, Insurance, and Real Estate

Source: Arizona Dept. of Economic Security, Research Administration, March 2001

likely to present a shock of instability to its economy. The state continues to maintain a full-employment economy. Thus far, at least, income growth continues to support consumer spending, and rising real estate values continue to appreciably support a sense of general wealth. RA continues to expect that Arizona will easily remain among the top 10 fastest job-growing states in the nation over the forecast horizon.

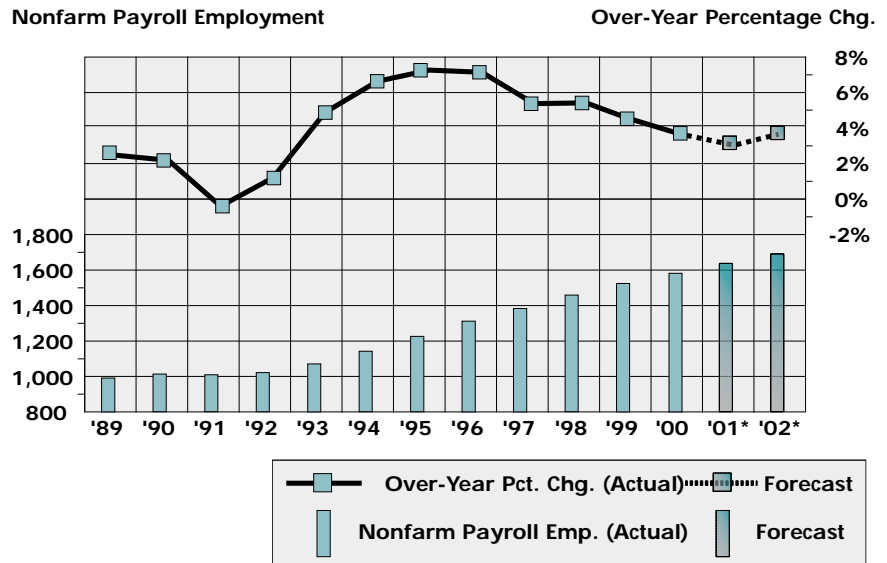
Phoenix-Mesa MA

The forecasted growth slowdown for the Phoenix-Mesa metropolitan area is not as severe as the one anticipated for the state because of its continued role as a relocation site for people and firms. Because of its relative size, diversity, and location, the metropolitan area has the strongest forces of attraction for relocation and economic development in the Grand Canyon State. Data from the Census Bureau confirms these strong forces of attraction. First, the Phoenix-Mesa was the eighth-fastest growing metropolitan area in the US from 1990 to 2000. Second, the 2000 Census showed that Phoenix was the sixth-largest city.

The climate, location, and existing economic base of the Phoenix-Mesa metropolitan area serve as incentives for people and firms to relocate to the Valley. The major reasons people move to the metropolitan area are to find employment or retire. Firms desire Phoenix-Mesa because of its ideal location for transporting goods to Mexico, California, Texas, and areas to the north such as Canada. Mexico has become a major U.S. and Arizona trading partner with the passage of the North American Free Trade Agreement (NAFTA). California and Texas continue to be economic powerhouses in the nation for the following reasons. First, these states have large consumer markets because of the size of their populations. The high-tech centers such as Silicon Valley in California and Austin in Texas

Figure 10

Phoenix-Mesa Metropolitan Area Nonfarm Payroll Employment Growth Rates, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Table 2

Phoenix-Mesa Metropolitan Area Nonfarm Payroll Employment Growth Rates, Actual (2000) and Projected (2001-2002)

(Annual Averages, in Thousands)

	2000	Growth Rate	2001	Growth Rate	2002	Growth Rate
Nonfarm Payroll^(a)	1,582.2	3.7%	1,632.4	3.2%	1,692.0	3.7%
Goods-Producing	287.0	1.6	291.0	1.4	294.7	1.3
Manufacturing	165.3	0.4	166.6	0.8	169.0	1.4
Mining	2.5	-39.0	2.5	0.0	2.4	-4.0
Construction	119.2	4.8	121.9	2.3	123.3	1.1
Service-Producing	1,295.2	4.2	1,341.4	3.6	1,397.3	4.2
TCPU ^(b,c)	84.1	5.3	87.1	3.6	91.4	4.9
Trade	374.2	3.1	384.0	2.6	396.8	3.3
FIRE ^(d)	120.7	2.5	123.1	2.0	125.9	2.3
Services	519.7	5.5	545.1	4.9	575.0	5.5
Government ^(c,d)	196.5	3.8	202.1	2.8	208.2	3.0

Notes: a) Totals may not add exactly due to rounding
 b) Transportation, Communications, and Public Utilities
 c) For forecasting purposes, Salt River Project is included in TCPU instead of Government
 d) Finance, Insurance, and Real Estate

Source: Arizona Dept. of Economic Security, Research Administration, March 2001

exchange goods and services with the high-tech industries in Phoenix. Second, high-tech industries locate in Phoenix because of the dry climate and lack of humidity that are favorable for their manufacturing and distribution. Moisture ruins semiconductor products and storms delay production and distribution. Third, the large population and economic base are a market to both sell products to consumers and purchase supplies from a wide variety of firms.

For 2001, the metropolitan area rate of job growth is expected to decline, but in 2002, RA projects the Phoenix-Mesa MA economy to recover to the pace of the year 2000. (The state does not return to its 2000 rate of growth in 2002.). For the forecast period, Phoenix-Mesa nonfarm employment is expected to increase by about 110,000, of which 93 percent (102,100) will occur in the service-producing industries. The goods-producing industries will add the rest (7,700).

Construction is expected grow at a slowing rate, partly due a decreasing supply of open land. Despite slowing growth, the industry is expected to remain strong because of lower interest rates. RA's forecast projects that road and building construction will moderate, while remodeling and expansion construction will continue at the pre-forecast period pace. (Many firms can switch easily between heavy and light construction depending on market conditions.)

For the forecast period, the construction industry is expected to gain 4,100 new jobs. Beyond the forecast period, the industry as a whole is expected to reach a peak and then begin a gradual decline as the metropolitan area is expected to gradually approach some limits of expansion.

Reflecting the slowdown in construction, the durable-goods manufacturing sectors of lumber and primary metals and aggregates are expected to lose employment over the forecast

The rise in the state's population has contributed to increased demand for both private and public services. ... (But) at the state and local level, costs will need to be minimized because of the political pressure to keep taxes low ...

period.

Overall, employment gains are anticipated in manufacturing because of the strength in durable-goods. Manufacturing employment is expected to increase by 3,700 over the forecast time span. Durable-goods manufacturing has strength in the sectors of machinery, electrical equipment, and aerospace. Demand for computers, telecommunications, electronics, and aviation products is expected to remain robust in both domestic and export markets.

RA expects employment levels in nondurable-goods manufacturing to decline for the following reasons. First, many firms are searching for lower labor costs outside of the nation, most recently in Mexico. Second, technological change is reducing the demand for labor through the increased use of machinery while increasing the remaining workers' productivity. For example, the printing and publishing sector is expected to lose jobs because of advances in computer technology that began in the early 1990s. Countering the trend of employment loss, RA projects food and kindred products will increase employment because of the growing population of the metropolitan area.

Like nondurable-goods

manufacturing, the mining industry has found sites outside of the country with lower extraction costs (especially labor) that have incorporated technological change to boost worker productivity. As a consequence, RA expects mining will continue to lose jobs, following a trend that began in 1996. For 2001, however, the industry is expected to end the year with no change in employment. But the losses should recommence in 2002 with an expected reduction of 100 jobs.

The slowdown in construction is expected to not only restrain employment growth in durable-goods manufacturing sectors of aggregates and lumber products, but also in the FIRE (finance, insurance and real estate) group. In the 1990s, FIRE was a dynamic engine of employment growth in the metropolitan area and the rest of Arizona, with the average growth rate peaking at about 11 percent in 1997. During the forecast period, the slowdown is expected to continue. RA projects 5,200 new jobs will be created over the two-year period. Recent volatility in the stock markets is also anticipated to hinder employment growth. People are now less willing to buy financial services. As a consequence, many firms in the finance sub-group have recently announced layoffs in 2001 (e.g. Charles Schwab).

Services is expected to be the stand-out industry group for the metro area, with a gain of 55,300 jobs over the forecast period. The strongest part of services, business services, is expected to benefit from the demand for temporary staff and computer support personnel. The increasing and aging population should raise the demand for health services. But in comparison to recent years, the growth rates for health services will be slower, reflecting the pace of the overall economy.

Following the trend of services, trade is expected to add 22,600 more jobs. To satisfy the needs of an increasing number of shoppers, RA expects the general merchandise and

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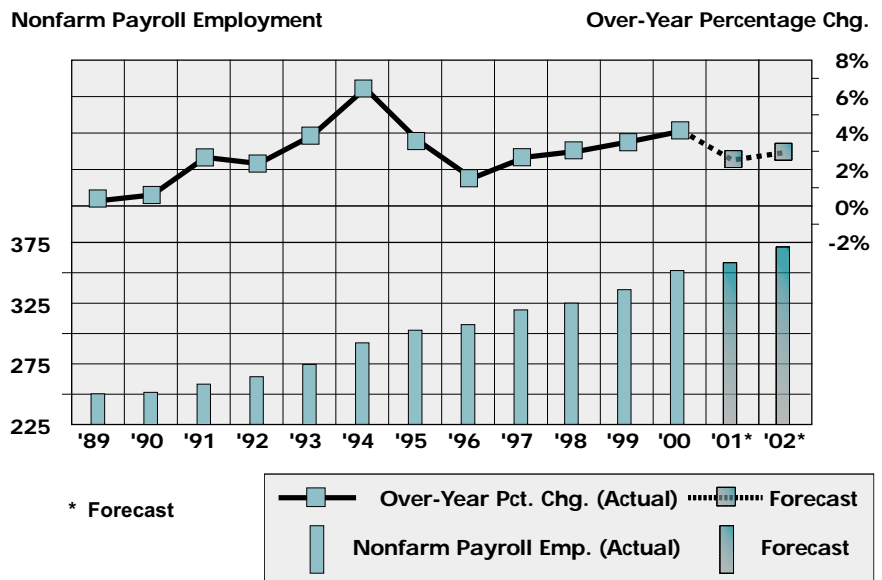
apparel sector will be the strongest group in retail trade. Also, food stores are expected to recover from the employment losses of recent years that were the result of consolidations. And, the automotive sales sector, along with bars and restaurants, is expected to expand at near average levels. Wholesale trade is also expected to grow at a pace of recent years.

The rise in the state's population has contributed to increased demand for public services, such as education, police, and fire. Primarily because of the state and local sectors, government is expected to add 11,700 new jobs over the two-year period. Federal government, however, will likely see job declines because of a mandate to reduce employment levels. But despite the gain in overall employment, the growth rate for government hiring actually declines over the forecast period. At the state and local level, costs will need to be minimized because of the political pressure to keep taxes low and to fund employee compensation and benefits.

Finally, the transportation, communications and public utilities (TCPU) group is expected to add 7,300 jobs over the forecast period. Increased demand for shipping and airline travel will benefit the transportation sector, especially in Phoenix metro area, which is home of America West Airlines. Also, technological developments and the spread of the infrastructure of the connected digital world are expected to give a boost to employment in communications. Rising fuel prices and mergers, however, could hinder employment growth in subsectors of transportation and communications. And concerns over deregulation and the supply of energy will likely affect public utility employment. One example: construction of power plants in the state by non-regulated private companies to supply the rising demand for electricity.

Figure 11

Tucson Metropolitan Area Nonfarm Payroll Employment Growth Rates, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Table 3

Tucson Metropolitan Area Nonfarm Payroll Employment Growth Rates, Actual (2000) and Projected (2001-2002)

(Annual Averages, in Thousands)

	2000	Growth Rate	2001	Growth Rate	2002	Growth Rate
Wage and Salary^(a)	350.2	4.1%	358.8	2.5%	369.3	2.9%
Goods-Producing	56.8	5.2	56.4	-0.7	55.8	-1.1
Manufacturing	33.1	8.2	33.3	0.6	34.1	2.4
Mining	1.9	0.0	1.9	0.0	1.8	-5.3
Construction	21.8	1.4	21.2	-2.8	19.9	-6.1
Service-Producing	293.4	3.9	302.4	3.1	313.5	3.7
TCPU ^(b)	12.0	0.8	12.2	1.7	12.6	3.3
Trade	72.4	2.3	74.3	2.6	76.7	3.2
FIRE ^(d)	13.9	1.5	13.8	-0.7	14.1	2.2
Services	118.8	5.2	123.4	3.9	129.0	4.5
Government	76.3	4.4	78.7	3.1	81.8	3.0

Notes: a) Totals may not add up exactly due to rounding
 b) Transportation, Communications, and Public Utilities
 d) Finance, Insurance, and Real Estate

Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Tucson MA

Employment growth in the Tucson metropolitan area (MA) is expected to slow in 2001 (how much) and then improve in 2002. The recovery is anticipated to be less than the pace set in 2000.

The Tucson metro area is expected to slow down more than Phoenix-Mesa area because of its smaller size. A larger economy such as the Phoenix-Mesa metropolitan area has a greater resistance to an external force of change such as an economic slow down. The Tucson metro area with its smaller economy is expected to have less resistance and, therefore, is anticipated to have a greater reduction in its pace of expansion.

For the year 2000, the Tucson MA's nonfarm employment grew by 4.1 percent (13,800). The anticipated two-year gain is 19,100 jobs, with the bulk of the increases occurring in service-producing industry groups. While the service-producing industries are expected to add 20,100 jobs, the goods-producing industries are expected to lose 1,000 jobs.

While construction employment grew 1.4 percent in 2000, it is expected to decline 8.7 percent (1,900) over the forecast period. The pressures of rapid development and the resulting congestion in Pima County MA are expected to shift construction activity away from Tucson and move it to other areas in the state. The slowing of the economy is also expected to exert downward pressure on the industry. The state, however, is expected to gain a total of 1,700 construction jobs during the same time period. A bright spot in construction for Tucson is the expected growth in highway construction employment for 2001. Completion of highway projects will lead to job losses in 2002.

Countering the trend of job losses in the goods-producing industries, manufacturing is expected to add 1,000 new jobs to its payrolls over the next

Reflecting the anticipated strength of BOS construction in 2001, the durable-goods sectors of primary and fabricated metals, lumber products and aggregates are also forecast to have a net gain in employment in the two-year period.

two years. The high-tech manufacturing sectors of fiber optics and aerospace are expected to have slowing growth over the forecast period. National demand for high-tech products is anticipated to increase, but at a moderated pace.

Even though durable-goods manufacturing jobs are expected to increase, nondurable-goods manufacturing employment is anticipated to decline over the two-year forecast period. The chemicals and textiles sectors are the only areas in nondurable-goods expected to grow, with a slight recovery in 2002. These sectors supply materials to the growing manufacturing sectors of high-tech durable goods. Even though nondurable-goods manufacturing declines over the two-year period, the gains in durable-goods manufacturing are expected to pull overall manufacturing job growth forward.

Another industry to be impacted by the slowdown in construction besides manufacturing is finance, insurance and real estate (FIRE). In 2001, FIRE is expected to lose 100 jobs, then recover in 2002 with the rest of the economy with a gain of 300 jobs. Lower interest rates will be the primary mover of FIRE (particularly in finance) over the forecast period.

With more vigorous growth than FIRE, services is expected to have

more than one-half of all anticipated job gains in the Tucson MA over the forecast period, or 10,200 new jobs. Educational services is expected to be the fastest growing sector in the major industry due to rapid job increases at charter schools and private, post secondary institutions such as technical schools and colleges. Also contributing to services' strong gains will be increased demand for temporary staff and computer support in business services.

Transportation, communications and public utilities (TCPU) is expected to have a similar trend of strong employment gains with an addition of 600 jobs over the two-year period. Transportation is expected to be the strongest part of TCPU because of Tucson's growing importance as a regional trade center between California, Mexico, Texas and Canada. TCPU is the only major industry group besides trade expected to have consistently faster growth rates from 2000 to 2002.

Following the trend of recovering growth, RA expects trade will add 4,300 more jobs over the forecast period to satisfy the desires of an increasing number of shoppers. Total trade employment is expected to reach 76,700 in 2002. Bars and restaurants should be the fastest growing retail trade subgroup, with general merchandise and apparel close behind. The anticipated exception to the growth trend is the automotive sector, which is expected to lose jobs. While automobile sales reached record high levels in the year 2000, they will moderate in the next few years.

Population growth will drive a number of factors increasing demand for public services. RA expects growth of 4,800 jobs in government, primarily in state and local sectors.

Finally, continuing a trend in recent years, although to a much less extent, the mining industry is expected to lose jobs during the forecast period.

About 100 mining jobs will be lost over the forecast period, all in 2002.

Balance of State

RA projects the Balance of State (BOS) will grow at a slower, but more constant rate than the two metropolitan areas during the forecast period. Whereas the Phoenix-Mesa and Tucson MAs slows in 2001, with a slight recovery in 2002, the BOS is expected to grow at a lower, constant level of 3.1 percent for both 2001 and 2002.

The forecast calls for BOS to produce 19,900 jobs over the two-year period, with the service-producing industries primarily responsible for all employment growth (20,200) and the goods-producing industries having a net employment loss (-600).

Manufacturing is the only industry group in the goods-producing industries projected to have an employment gain (300) during the forecast period. Unlike the metro counties, growth will occur in both durable- and non-durable-goods, with the electronics sector showing the greatest strength in durable goods and chemicals and textiles performing the best among nondurable-goods sectors. Reflecting the anticipated strength of BOS construction in 2001, the durable-goods sectors of primary and fabricated metals, lumber products and aggregates are also forecast to have a net gain in employment in the two-year period. Job losses are expected in the nondurable-goods sectors of printing and food.

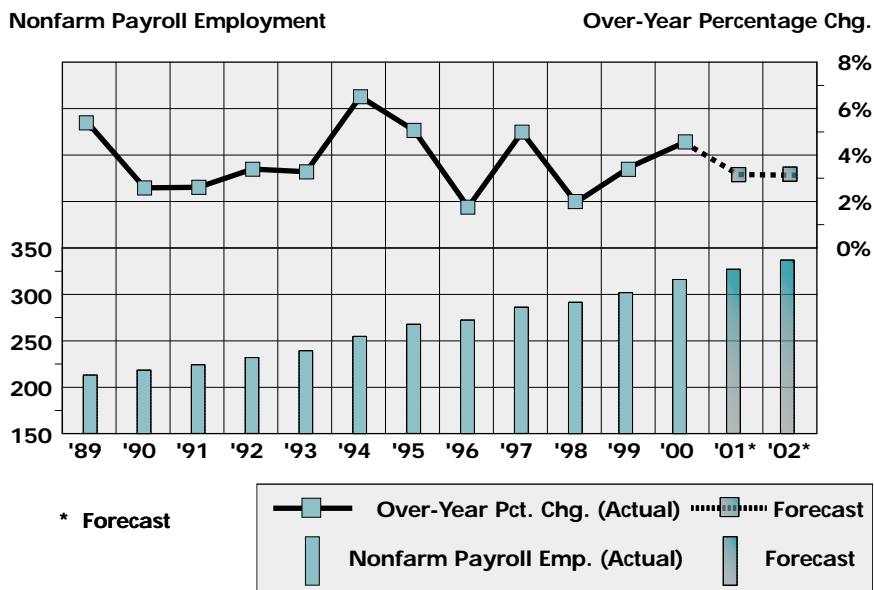
RA expects the construction industry, which will peak during 2001, will have an overall employment loss (-500) during the forecast period. The expected peak in 2001 will lead to job growth of 500 in 2001, but a reversal in construction will cause job losses of 1,000 in 2002.

Unlike the metro areas, all of the subgroups of construction (e.g., commercial building, roads, and special

(continued on back page)

Figure 12

Balance of State Nonfarm Payroll Employment Growth Rates, Actual (1989-2000) and Projected (2001-2002)



Source: Arizona Dept. of Economic Security, Research Administration, March 2001

Table 4

Balance of State Nonfarm Payroll Employment Growth Rates, Actual (2000) and Projected (2001-2002)

(Annual Averages, in Thousands)

	2000	Growth Rate	2001	Growth Rate	2002	Growth Rate
Wage and Salary^(a)	315.6	4.6	325.4	3.1%	335.5	3.1%
Goods-Producing	42.9	3.9	43.4	1.2	42.3	-2.5
Manufacturing	16.5	0.6	16.8	1.8	16.8	0.0
Mining	5.4	0.0	5.1	-5.6	5.0	-2.0
Construction	21.0	7.7	21.5	2.4	20.5	-4.7
Service-Producing	273.0	4.9	282.0	3.3	293.2	4.0
TCPU ^(b,c)	12.6	1.6	13.1	4.0	13.5	3.1
Trade	79.1	4.5	81.3	2.8	84.2	3.6
FIRE ^(d)	9.0	11.1	9.2	2.2	9.3	1.1
Services	78.4	8.4	81.7	4.2	86.0	5.3
Government ^(c)	93.9	2.3	96.7	3.0	100.2	3.6

Notes: a) Totals may not add up exactly due to rounding
 b) Transportation, Communications, and Public Utilities
 c) For forecasting purposes, Salt River Project is included in TCPU instead of Government
 d) Finance, Insurance, and Real Estate

Source: Arizona Dept. of Economic Security, Research Administration, March 2001

State's Economy to Generate Moderate Job Gains in '01-'02

(continued from page 11)

trades) are expected to have reduced employment levels over the forecast period. But among the strongest areas in construction will be the following: 1) building related to relocation of businesses away from the urban centers; 2) retirement homes; and 3) infrastructure near highways to support gambling, travel, trade, and shipping.

The expected weakness in construction during 2002 will cause a slowdown in growth in finance, insurance and real estate (FIRE). The industry group will add only 300 new jobs during the forecast period, with expansion in other areas of the economy keeping FIRE from losing employment overall.

Following a similar slowing trend, transportation, communications, and public utilities (TCPU) is expected to add 900 jobs over the forecast period. Transportation is expected to be the fastest growing part of TCPU, propelled by an anticipated increase of trade and tourism. Mergers and acquisitions are expected to restrain the expansion of communications and public utilities.

With stronger growth than TCPU, services will be the largest and fastest generator of new jobs over the forecast period with an expected gain of

7,600. Population growth will create the demand for new jobs. Within services, the strongest subgroup will be business services, because of the demand for temporary staff and computer support. Temporary workers are a necessity in the BOS region because many of the industries, such as agriculture and tourism, have a strong seasonal activity cycle. The only services subgroup projected to lose employment is personal services, most likely due to workers in this sector migrating to metro areas seeking higher wages. Personal services include firms involved with laundry, photography, and hair styling services.

With an expected employment gain similar to services, RA projects trade will add 5,100 jobs over the forecast period. A less competitive market of offering more opportunities for businesses will allow trade to grow at a faster rate in BOS than in the two metro areas. Again, population growth will drive an expanding retail sector, with general merchandise and apparel being among the fastest growth areas.

With an increase in population, the demand for public services (e.g., fire, police, education) is expected to grow. As a consequence, RA projects state and local government will add 6,300 jobs. Finally, reductions in mining employment (-400) are expected for both forecast years in BOS. **AET**

— Don Wehbey and Jack York,
RA Economists



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The purpose of Arizona Economic Trends is to provide an update and analysis of state and county employment and economic data, as well as information on state and national programs and policies that affect the nation's and Arizona's labor markets. Included in this publication twice yearly are Research Administration's two-year projections of employment, unemployment, and labor force for Arizona and its major sub-state regions.

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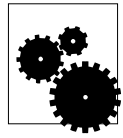
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Industry Update



Phoenix Metro Area

Manufacturing

Two of the Valley's largest high-tech companies are reacting to the economic slowdown in different ways. **Motorola**, which has experienced declining sales of its cellular phones, networking equipment, and microprocessors, has **announced worldwide layoffs of 26,000 workers** — including **more than 500 at Phoenix-area plants** — since December. And most recently, the Schaumburg, Ill.-based company said it will cut costs through an 8 to 10 percent reduction in production hours, letting employees take unpaid leave and work part-time, and offering incentives to encourage early retirements. **Intel Corp.**, on the other hand, is taking advantage of the slowdown by gearing up for the official **opening of a new fabrication plant** in Chandler. Although the Santa Clara, Calif.-based company has **laid off 5,000 workers worldwide**, it continues to hire and train workers for the \$2.2 billion **plant**, which will **eventually employ 1,800**, plus several hundred contract employees. In addition, Intel hasn't let up on building the 1 million-square-foot plant. Expected to be fully operational this fall, as many as 3,000 workers have toiled 24/7 on the plant since work began in February 2000.

Unable to convince its bank to allow a sale of the company, **Titan Motorcycle Co.** of America was forced to **shut down operations** for good in **early April** and **lay off 40 employees**. The Phoenix-based company filed for Chapter 11 bankruptcy protection in January, after it was unable to jump-start sales of its line of lower-priced, mass-produced bikes. Started in 1995, Titan quickly gained attention for its line of high-end, hand-made cruising motorcycles.

The fallout from the slowdown at high-tech companies continues to be felt at a number of Valley operations. **Honeywell Aerospace**, which laid off 225 Phoenix-area employees in January, said in late March that **another 475 jobs will be eliminated** due to reduced orders for its aircraft engines and avionics components. Most of these cuts — representing 3 percent of the Morristown, N.J.-based company's Arizona workforce of 16,000 — will likely occur at Honeywell's Valley facilities (Phoenix, Tempe), with some also affecting a Tucson plant. (Also see related story below) ... Chandler-based **Durel Corp.**, which makes luminescent devices for cell phones and other electronic products, followed up on its cut of 47 jobs in early March with the **layoff of an additional 87 workers**. ... Although **SpeedFam-IPEC** reported a smaller loss than expected in the fiscal quarter ending March 3, the company nevertheless said it would **cut 220 jobs** at its **east Valley operations**. The Chandler-based company makes semiconductor-manufacturing equipment. ... Chandler-based **Microchip** cut 400 jobs worldwide, and **200 at**

its Valley plants. ... Phoenix-based **On Semiconductor**, which operates the former Motorola plant at 52nd Street and McDowell Road, **eliminated 300 jobs**, primarily administrative and support positions. ... In early March, telephone giant **WorldCom Corp.** closed its **MCI technical-support center** in Chandler, **eliminating 400 to 500 jobs**. ... In January, **Innovex**, a producer of high-tech circuits, **closed its Chandler facilities**, affecting **260 workers**.

Citing six years of losses — not current economic conditions — Phoenix-based **Simula Inc.** **laid off 60 workers** worldwide, **including 36** at its **Tempe operations** and **six** at a **research and development facility in Sedona** that will be closed. Simula, which employs 800 worldwide and 450 in the Valley, makes vehicle- and body-safety equipment (e.g. side-impact air bags, bulletproof vests).

Looking toward the future (and hopefully a revived high-tech sector), **Arizona State University** will **partner with Intel Corp. and Motorola** to **double** the number of **engineers specializing in embedded computing** at **ASU's College of Engineering and Applied Science**. Called the Consortium for Embedded and Internet Working Technologies, the program will **offer up to 40 internships** at the two companies over the next 18 months as part of class credit. Embedded computing involves the electronic control of equipment involved with communications, the Internet, and networks. For example, programming a refrigerator to read bar codes on packages to determine the refrigerator's optimal temperature setting.

Phoenix-based **Gemtek Products LLC**, known for its environmentally safe industrial and commercial cleaning products, is **expanding into the consumer market** and **creating more than 150 new jobs** over the next five years. Gemtek, which has six other factories in two states and three counties that serve its industrial and commercial clients, wants to base its western U.S. and South American consumer operations in Phoenix.

Many of the 16,400 workers at **Honeywell's operations in Arizona** fear the results of a **proposed merger with General Electric**. **Analysts** are **speculating** that **5 to 10 percent** of the combined companies' **employment**, or 20,000 to 40,000 jobs, **will be lost** after the merger. Although many of the products made by Honeywell — corporate jet engines, cockpit controls, guidance systems — do not overlap with GE's products, there are **thousands of management positions** (marketing, finance, clerical) that **may be eliminated** to avoid duplication of work. One good sign for Arizona is that most of the corporate functions are located at Honeywell's offices in New Jersey, but some layoffs are still expected at either its Phoenix or Tucson operations.

The atmosphere at **MD Helicopters Inc. in Mesa**, however, is much lighter, reflecting the company's soaring

sales. **Orders are up nearly 60 percent** from 2000 at the former commercial division of Boeing Helicopter Co., now owned by **Netherlands-based RDM**. MD's biggest sellers — used by corporations, police departments, and emergency services — include models with a quieter no-tail rotor system and the twin-engine MD 900 Explorer. Despite the improved outlook, MD, which employs 360 at its Mesa plant, **has not announced plans for a major expansion**.

"Life is (also) Beautiful" at a recently completed 145,000-square-foot plastic container factory in Tolleson, about 15 miles west of downtown Phoenix. Chicago Ridge, Ill.-based **Landis Plastics**, which makes more than 1 million cups a day for dairy products produced by companies such as General Mills, Yoplait, and Safeway, **expects** its 80-employee **workforce to double** as it ramps up operations. Landis' plant is currently at about 60 percent of capacity, with 12 of 18 injection-molding machines in use.

Within the next five years, Netherlands-based **ASML** says an expanded technical and sales center at Tempe's ASU Research Park **expects to hire an additional 50 instructors, engineers, and developers** to teach clients and employees about its latest manufacturing equipment. ASML, which is doubling the size of its current operations at the park, makes machines that imprint circuits on semiconductor wafers.

Jupiter, Fla.-based **Photronics Inc.** is **moving** its Valley **manufacturing and customer-service operations** into a new \$30 million facility at **Phoenix Industrial Park**. The high-tech company, which makes photomasks that transfer circuit patterns onto semiconductor wafers, expects to **add 50 workers** to its 80-person staff within the **next five years**.

Mining

The **Camelback Esplanade**, 24th Street and Camelback Road, will become the **corporate home to Asarco Inc.**, the world's third-largest copper-mining company. About **100 employees** were expected to make the **move from New York to Phoenix** in April, with **some additional positions filled locally**. Asarco, a subsidiary of Grupo Mexico, a behemoth mining and railroad concern in Mexico City, is now one of two major copper producers to call Phoenix home. The other is Phelps Dodge Corp.

Construction

Catching almost everyone by surprise, the west Valley **city of Glendale struck a deal** with developer Steve Ellman to **build a \$180 million, 17,500-seat hockey arena** for the Phoenix Coyotes on the southeast corner of Loop 101 and Glendale Avenue. The city expects the deal — which also calls for Ellman to **develop 3 million square feet of office space, hotels, and a movie theater**, plus **redevelop an existing shopping center** at 59th and Northern avenues — will lead to an explosion of other projects in the immediate area. Ellman, who owns the Coyotes, was working with the city of Scottsdale to build an arena and shopping complex where the former Los Arcos Mall was located (Scottsdale and McDowell roads).

However, contentious negotiations between Ellman and Scottsdale leaders over a two-year period led to repeated threats of ending the development proposal, which had received the support of Scottsdale voters on two occasions.

Indicative of the west Valley's potential, at an economic forum held in mid-April at Arizona State University West in Glendale, economist Elliott Pollack said he expects the **west Valley's housing market to grow** at a rate (5.5 percent) two percentage points **faster than the county as a whole** over the next 10 years. Nearly 50 subdivisions are currently under development in the west Valley, including two master-planned communities — Anthem and Sun City Grand.

Lured by \$1 million in incentives (and possibly the arena deal), **Bechtel Group is moving an administrative office** from Phoenix to Glendale, with a promise to **add 200 jobs** to its existing workforce of 300. An international construction company, San Francisco-based Bechtel will occupy 100,000 square feet at the Talavi Business Park, 55th Avenue and Bell Road. Founded in 1898, Bechtel currently employs 40,000 people in 66 countries.

While the west Valley received most of the attention recently, one major east Valley project was getting under way. Developer **SunCor** and builder **McCarthy Construction** broke ground on **Hayden Ferry Lakeside**, the first commercial development along **Tempe Town Lake**. The 17-acre project will **consist of three office buildings**, eight- to 12-stories tall, along with retail space on the ground floors and a 2,500-space underground parking garage. The first phase of the project, an eight-story building and the first three floors of the garage, are expected to be finished by July 2002. The project is **SunCor Development Corp.'s second at Tempe Town Lake**. Previously, it was awarded a contract to build a 9-acre, **mixed-use development** near Rural Road. The project will include a conference hotel, office and retail space, and a 1-acre special-event plaza.

While the high-tech market is in a slump, the **construction industry** in the **Phoenix metro area remains red hot**. Single-family housing permits were up nearly 14 percent for the first two months of 2001 compared to the previous year — 5,158 vs. 4,528. Lower interest rates were partially funneling the strong home market. The commercial and industrial real estate market is also in good shape, witness the **growth of warehouses and office buildings along Valley freeways**. One example: **three office projects planned by Roth Development Corp.** off Loop 101 in Deer Valley. Roth has started work on a 145,000-square-foot building at 7th Avenue and Loop 101, called **Deer Valley Center**, that is scheduled to open in mid-2002; and has plans for a **200,000-square-foot building at Cave Creek Road and 101** and a 26,000-square-foot structure at 15th Avenue and 101. And **expect the good news** in the office and industrial market to **continue at least through 2002**, according to *MarketWatch 2001*, an annual report by CB Richard Ellis. The publication expects 3.5 million square feet of new office space in 2001,

with a vacancy rate of 10.5 percent (up from 8.3 percent in 2000); an additional 9 million square feet of industrial space, with a declining vacancy rate (6.5 percent vs. 7.4 percent in 2000); and the **opening of 36 new retail centers**.

Hunt Construction Group expects **employment** on the \$334 million **Arizona Cardinals football stadium** to **average around 1,000** over the next three years, with several thousand additional workers needed for surrounding infrastructure. Builders of the Bank One Ballpark, Hunt will oversee construction of the stadium, which will be located in Tempe at Priest and Washington streets. Among **occupations** that will be **in demand** will be **iron and sheet metal workers, electricians, carpenters, laborers, and plasterers**. Hunt will subcontract much of the stadium work, expected to begin in August.

Work is expected to **begin this summer** on **several master-planned communities** in the **west Valley** that have the **potential** to include **more than 160,000 homes** over the next three decades. **Hancock Communities** will begin work in June on a **2,000-acre community** near Interstate 10 and Airport and Miller roads that will contain **nearly 7,000 housing units**. Hancock will develop about one-third of the acreage and sell off the rest to other developers. In addition, **DMB Associates** will start work on the infrastructure for an **8,800-acre development** between I-10 and the White Tank Mountains that is expected to be home to **more than 14,000 houses and apartments**. Finally, in late December, the city of Phoenix approved zoning for a **500-acre development** near the **southwest corner of Southern Avenue and 67th Avenue** in the unincorporated community of Laveen. Although there are concerns about potential flooding and a nearby munitions factory, the land's owner, Sunny Mesa, expects to develop **1,500 single-family homes** on the property.

Transportation, Communications, and Public Utilities

Tempe-based **America West Airlines** will **eliminate 300 management and clerical jobs** (or 10 percent of its administrative staff) through attrition and layoffs by early May. Higher fuel costs and a decline in business travel, which caused a first-quarter loss of \$12.8 million, is responsible for the job cuts, the airline said. America West posted a profit of \$14.6 million in the first quarter of 2000.

A **joint venture between America West Airlines and Mesa Air Group** could **bring at least 2,000 jobs** to a planned **east Valley training facility** within the next year. The most likely site for the state-of-the-art facility is Williams Gateway Airport in east Mesa. Tempe-based America West will add between 40 and 100 airplanes to its regional fleet over the next four years, with most of the planes operated by Phoenix-based Mesa Air Group, a regional carrier that had net earnings of \$59 million in 2000. The two airlines have a code-sharing agreement that funnels passengers to each other.

Increased competition and a realignment of priorities has forced **Cox Communications** to **stop work** and sell a half-complete new three-story **headquarters and support**

buildings in north Phoenix. The Atlanta-based telecommunications and media company, which controls most of the cable TV in the Valley, will now focus its efforts on expanding its digital cable, high-speed Internet, and telephone services. Loss of customers to satellite TV and other providers of broadband services, along with complaints about the quality of service, forced Cox to cut costs and invest more money in customer service.

Work began in May **in Surprise** on a **spring training home** for the **Kansas City Royals** and **Texas Rangers**. The baseball complex will be the **first part** of a 20-year, **850-acre development project** that also includes a \$23 million civic center, which will feature a city hall, library, performance-arts center, and 510 acres for commercial and retail projects. Once a small agricultural town in the north-west Valley, **Surprise** now has **45,000 residents** and is expected to grow to a population of 320,000 by 2020.

With fears the California energy crisis will spread to other states, **energy companies** are trying to **speed up** the process to get **new power plants** on-line, including projects that can bridge any power gap during the upcoming summer season when energy demand rises in the Valley. **Duke Energy North America** broke ground in late February on a **\$250 million electric power-generating facility** in **western Maricopa County** near the Palo Verde Nuclear Generating Station. The 570-megawatt plant will offer power to the wholesale market when completed in summer 2002.

Gilbert-based **Spectrum Astro**, which recently won a \$50 million contract to build a satellite for the U.S. Air Force to detect an interruption in communications, is **expanding its operational space** by 42,000 square feet to take care of its short-term needs. The satellite manufacturing company, which employs 320, expects to **build a \$55 million plant** in the near future that would **eventually employ 1,000 workers**. The first phase of the project, which is expected to open in mid-2002, would include a 270,000-square-foot plant.

Phoenix-based **Aerial Telecom** and **ClearSky Broadband** of Kennewick, Wash., will be part of a half-dozen **high-speed wireless services** in the Valley when they begin operation later this year. **Clear Sky**, which is **moving its headquarters and call center to Scottsdale** in **mid-2001**, expects to **hire about 40 people** by the end of the year. **Aerial Telecom** plans to start its service in May, **adding about 50 employees** by September.

Trade

By the summer of 2002, the **Earnhardt** family auto business will consist of a "lucky" **13 franchises** at 10 locations through the Phoenix metro area. The 50-year-old company will open its 12th dealership (Ford) in Apache Junction later this year and a 13th (Nissan) at a 27-acre auto mall near Superstition Springs Mall next year. Earnhardt, which owns the largest Dodge dealership in the world, **employs about 2,000 people** at its current 11 dealerships.

Target Stores has started work on a **1.6 million-square-foot distribution center** in **west Phoenix** to service

about 100 stores in Arizona, and southern parts of Nevada and California. With an expected **completion date of June 2002**, the massive L-shaped facility at 7101 W. Van Buren St. will **employ 900 workers**. In addition to the warehouse, Target will **open** a 135,000-square-foot **store at The Summit at Scottsdale** (Dove Valley and Scottsdale roads) **in July**, and plans to **build** a 142,000-square-foot **Target Greatland** as part of the **Desert Ridge Market-place**, Tatum Boulevard and Loop 101.

"Freestanding" has become the **design of choice** for new **Walgreen's and Osco's** drug store locations planned for the Valley. The reason: drive-thru pick-up for prescriptions. **Osco**, owned by Albertson's Inc., is **planning 17 freestanding stores** in the Phoenix metro area **in 2001**. A few of the stores will replace existing locations. **Walgreen Co.** expects to **build between 35 and 40** free-standing stores in the Valley over the **next two years**, with most opening in 2002. The nation's largest drug store chain, Rhode Island-based **CVS**, expects to **open its first** of an unspecified number of Valley locations **in 2002**. Most of CVS' stores in the Valley will be, you guessed it, freestanding.

Sears, Roebuck & Co. is **buying two Montgomery Wards stores and auto centers** in the Valley, as part of plans to purchase 18 of the former retailer's outlets, along with 10 stand-alone auto centers, and service contracts for 2.4 million customers. Sears expects to **reopen** remodeled stores at **Arcadia Crossing** (Phoenix) and **Arrowhead Towne Center** (Glendale) by **spring 2002**.

Although the east Valley city of Chandler has been hit hard by recent high-tech layoffs (see above), the **opening** of 1.3 million-square-foot, 150-store **Chandler Fashion Center** (southwest corner of Loop 101 and Chandler Boulevard) **in October** is expected to **create 3,500**, albeit mainly lower-paid, **jobs**. National retailers opening stores at the mall — such as **Nordstrom**, **Robinson's-May**, and **Sears** — typically begin **hiring management workers** well before they open. In addition, two other shopping centers catty-corner to the mall will be opening this fall. **Chandler Gateway**, just north of Chandler Boulevard across from the mall, will feature a **Sears Great Indoors** store; and **The Boulevard Shops**, on the south side of Chandler Blvd fronting the shopping center, will be home to a **PF Chang's** restaurant.

A weakening economy forced Phoenix-based **Avnet Inc.** to **lay off 175 employees (100 locally)** in its Electronics and Computer Marketing groups in mid-February, the company said. Most of the cutbacks involved sales positions. The layoffs amount to about 4½ percent of Avnet's U.S. workforce of 8,000, of which about 3,500 are located in the Valley. Avnet is one of the leading distributors of electronic components in the world.

Despite losing out on the Cardinals' football stadium (see above), the **west Valley** — including developer and stadium hopeful John F. Long — continues to **pick up wholesale trade opportunities**. Long is planning a

1,000-acre business park, called **Algodó Center**, on the northwest corner of Indian School Road and Loop 101.

First phase of the project is expected to **begin this spring**. Also, **E&V Investments** will **develop** 400,000 square feet of **distribution space** near Washington Street and 86th Avenue in **Tolleson**. **First phase** of the project will be a 225,000-square-foot building that will be **home** to masking-paper maker **Tri-Paper**, which will lease one-third of the space **beginning in April**.

Intense competition from Home Depot and Lowe's forced **HomeBase** to **change** its business from focusing on home improvement to **home decorating**. The Irvine, Calif.-based chain **closed** all **six** of its **Valley stores** over the next three months and will **reopen five** of them two months later as a new business called **House-to-Home**. Each **House-to-Home** location, which will be similar in concept to Sears Great Indoors stores, will **employ about 160 people**, about 40 more than a typical HomeBase. Current HomeBase employees will be laid off and have to reapply for House-to-Home positions.

The nation's largest office-supply chain, **Office Depot**, **pulled out of the Phoenix market**, as part of a plan to leave underperforming cities. **Nine Phoenix-area stores** closed at the end of March, with about **150 employees losing their jobs**.

Finance, Insurance, and Real Estate

GE Capital Corp. agreed to **purchase Franchise Finance Corp. of America**, a Scottsdale company that provides financing for franchisees of chain restaurants, auto-parts retailers, and convenience stores. GE Capital, a subsidiary of General Electric Co., said it **doesn't expect to lay off any of Franchise Finance's 190 employees**. The \$2.1 billion sale needs approval from stockholders of both companies and federal officials.

Washington Mutual opened eight of 40 planned **"financial centers"** for the Phoenix metro area in late March. The Seattle-based bank, which expects to **hire 500 to 600 Valley workers** over the next 18 months, features a youth-oriented trendy look in their offices that appears more like a Gap store than a normal financial operation. Each office features a "concierge" who greets the customer and guides them to an appropriate service area.

Although not formally announced, **Wells Fargo** is **expected** to choose **Chandler** for a **corporate campus** that eventually will **house 4,000 workers**. In his State of the City address, Chandler Mayor Jay Tibshraney said the state's third-largest bank is closing a deal on **60 to 80 acres near Price and Pecos roads**, where Loops 101 and 202 will eventually hook up. **No information** was available on **how many of the jobs** — which will include customer service, information technology, and administrative and clerical positions — will be **new or moved** from other locations in the state.

Bank of America will start a **pilot program** in Phoenix designed to **teach banking fundamentals** to **lower-in-**

come individuals and which could **potentially lead to a job** in the industry. The financial services training program was set to begin in March and cover topics that include products and services offered at a bank, checking accounts, developing a budget, and cash management. At the end of the program, which can last one week (full-time) or two weeks (part-time), bank officials provide information about job opportunities. The program originally started two years ago as a welfare-to-work project designed to hire people in low-income categories.

Services

The U.S. Bankruptcy Court in Phoenix approved **the sale of Phoenix Memorial Hospital**, 7th Street and Buckeye Road, to **Vanguard Health System**. Expected to be completed by early May, the non-profit hospital will be purchased for \$39 million by for-profit Vanguard, based in Nashville, Tenn. Vanguard owns three other Arizona facilities — Arrowhead Community Hospital in Glendale, Maryvale Hospital Medical Center, and Phoenix Baptist Hospital and Medical Center.

A China-based computer-aided design firm and the University of Phoenix's first east Valley location highlight tenants planning to locate at a recently completed 75,000-square-foot **Mesa office complex** called **Stapley Center** (Stapley Road and U.S. 60). Chinese designer **P and S Electronics USA**, which **expects to hire up to 50 employees**, will lease 5,000 square feet at the new office site, while the University of Phoenix will lease an undisclosed amount of space.

Barrow Neurological Institute plans to **build** a \$25 million **neuroscience center** on the **campus of St. Joseph's Hospital and Medical Center** in Phoenix. The seven-story building, expected to take two years to complete, will **include medical offices**, as well as **outpatient and diagnostic services**. St. Joseph's, located at 3rd Street and Thomas Road, is also awaiting approval from its board of directors on a **\$110 million expansion** that will **add 128 beds** in a new seven-story patient tower, as well as a new operating and emergency rooms.

Several other health-care operations were also making news. San Francisco-based **Catholic Healthcare West** **cut 350 corporate and regional administrative jobs** as part of a restructuring plan to save \$100 million. The company, which owns St. Joseph's Hospital in Phoenix and Chandler Regional Hospital, is **reducing** the number of **regional operations** from 10 to four. Arizona's division will now be combined with operations in Nevada. ... Work on a \$70 million **renovation of Phoenix Children's Hospital** is **nearing completion**. The children's facility at 20th Street and Thomas Road — which formerly housed the Phoenix Regional Medical Center — **expects to open this fall**.

More than 600 of **Charles Schwab's 2,500 Valley workers** were **let go** by the discount stock broker in late April. The San Francisco-based company, which has seen its profits shrivel up the past 12 months as the stock market has fallen

on hard times, has two customer-service operations and a computer center in the Valley. It's **not known** how the downturn will affect Schwab's plans for a 500,000- to 700,000-square-foot **corporate campus** in the east Valley.

An up-and-coming Phoenix-based provider of computer-training courses inked two major deals in February. **KnowledgeNet.com**, which grew more than 19,000 percent and **added more than 250 positions in 2000**, agreed last month to become the exclusive Internet certification trainer for EMC data storage products and partner with a Maryland company to provide training — for companies such as Cisco Systems and Microsoft — at more than 100 community colleges nationwide.

A **Scottsdale call center** that provides customer support for major wireless phone companies hasn't been "phased" by the economic slowdown. **Phase 2 Solutions Inc.** expects to **hire an additional 240 employees this year**, on top of the 300 it added in 2000. Started as a wireless phone reseller in 1994, Phase 2 has taken off since it switched to servicing other firms' clients in the late '90s. The company recently moved into a **new 50,000-square-foot office** on East Rain Drive near Loop 101.

In a \$7 billion stock swap, **Phillips Petroleum Co.** will **purchase Tosco Corp.**, one of the nation's leading oil refiners and distributors and owner of Circle K convenience stores. The deal is **expected to lead to layoffs** at Tosco Marketing Co., a 1,200-employee unit based in Tempe that runs Circle K stores. But the combined company's **retail, marketing, and transportation (RMT) operations** will be **moved to the east Valley city**, which is expected to **increase overall employment** in the Valley. Phillips, headquartered in Bartlesville, Okla., has 575 of its 2,800 corporate employees working in RMT operations. No layoffs, however, are expected at Circle K stores.

The demand for medical office space and specialty facilities seems unending. **More than 1 million square feet of office space** was **constructed in 2000**, and **more than 40 medical office projects** — many in the west Valley communities of Avondale, Buckeye, and Goodyear — are under way or in the planning stages this year. In addition, Tucson-based **Arizona Cancer Center** is **building a branch hospital and research facility** on the **campus of Scottsdale Healthcare Shea** in north Scottsdale. The 69,000-square-foot hospital, which will offer radiation therapy, chemotherapy, and bone-marrow transplant services, is expected to open in November 2001. A 32,000-square-foot research building will include laboratories, and doctor, scientist, and administrative offices.

Tucson Metro Area

Manufacturing

Despite a slump in the economy, **two of Tucson's major high-tech employers** are **not planning cutbacks**. In fact, one is expecting to increase employment. **Texas Instruments Inc.**, which bought out Burr Brown Corp. last year, has issued a hiring freeze and other cost-cutting mea-

tures, but doesn't play any layoffs of its 1,200 Arizona workers. **Raytheon Missile Systems**, on the other hand, still expects to **hire 1,000 engineers in 2001**, with about 300 of the jobs being new positions. Plans by President Bush to step-up defense spending — including work on a strategic-defense system — is likely playing a role in Raytheon's strategy.

Global Solar, which makes photovoltaic film for solar devices, **cut its workforce of 100 by one-third** in mid-March. A subsidiary of Unisource, the parent company of Tucson Electric Power, Global Solar made cuts because it was unable to make its sales projections. of 10 megawatts of photovoltaic material a year. Unisource invested \$20 million in Global Solar last year.

Another Tucson-area business relying on solar power is **Native American Botanics Corp.** With capital earned by winning several government research grants, the company's co-founders became a distributor of freeze-dried herb capsules for an Oregon company and recently **began construction on a greenhouse on the Pascua Yaqui reservation** 15 miles southwest of Tucson. Native American Botanics hopes to eventually partner with five to 10 Native American tribes and develop production, supply, and distribution networks for herb products. The company's **five-year goal** is to have a **20-acre greenhouse with 500 workers**.

Cincinnati-based **Plastic Moldings Co.** took only three months to **build a 90,000-square-foot injection molding plant** that will **employ 230 workers** when **fully staffed in 2003**. The plant, which will make cell phone containers, **opened in March** with about a dozen employees, but expects to **expand to 60** by the end of the year.

Mining

Rising energy costs and low prices for a copper byproduct used to harden steel, **may force Phelps Dodge Corp. to close its Sierrita copper and molybdenum mine** south of Tucson. Phoenix-based Phelps Dodge gave workers 60-day's notice (required by federal WARN law) at the Sierrita mine and two mines in New Mexico that operations may shut down. The closure would affect 740 workers in Arizona. BHP Copper closed its San Manuel mine in June 1999, laying off about 2,500 workers, leaving the Tucson area with only two mining operations — Sierrita and Asarco's Mission mine.

Construction

One million square feet of industrial building in the Tucson metro area, the highest amount since the mid-1980s, is expected to be **under construction by mid-2001**. The difference between now and then is that currently there is a low vacancy rate (8 percent), while in the '80s much of growth was due to "spec" building financed by easier lending policies. Primarily **manufacturers with significant employment** wanting sites near major highways (e.g., I-10, I-19 and north Oracle Road) are **behind more than a half-dozen projects** in the Tucson

MA. Among projects planned or under way: an expansion of the 1,345-acre **University of Arizona Science & Technology Park**, including an executive hotel and convention facilities; **three 150- to 270-acre office campuses** being developed by Diamond Ventures in southeast Tucson and in Sahuarita; an 80,000-square-foot **Continental Ranch Commerce Center** in northwest Pima County at I-10 and Cortaro Road; a 23-acre **Shannon Technology Center**, River and Thornydale roads, expected to **open this fall**; and **the first phase** of a 338-acre **Rancho Vistoso Tech Center** in **Oro Valley** (West Tangerine and North Oracle roads), expected to open in July.

Trade

Beginning in early August, the **Park Place mall** will feature a **12-store food court** and a **20-screen movie complex**. The movie theater and food court, which comprise the second phase of Park Place's redevelopment, replace a space formerly occupied by a Dillard's, which moved to an area east of its former location. The first phase of the redevelopment, which was completed last year, involved changing the interior look of the mall.

Don Mackey is **opening showrooms and service operations** at the **Tucson Auto Mall** (north of Tucson at I-10 and Exit. 254, see map) for his BMW and Cadillac/GMC/SAAB products. The BMW service center will feature 20 service bays, while the Cadillac/GMC location will have 50 bays.

North Carolina-based **Krispy Kreme Doughnuts**, which is expanding across the country almost as fast as it makes its famous glazed pastries, is expected to **open** its first **two stores in Tucson** this year. Krispy Kreme is also planning to add two stores to its three existing locations in the Phoenix area.

Safeway Food and Drug bought seven **ABCO Desert Markets** in the Tucson metro area that **opened** as **Safeway** stores in **early April**. Safeway bought the stores from Dallas-based Fleming Cos., a food distributor, which has been trying to sell the unprofitable 57-store chain (including 17 in Tucson MA) for more than a year. **Each store will employ about 75 workers**.

Work has **begun** on the **remodeling of the El Con Mall**, which will **become the Plazas at El Con**. As part of the **three- to five-year project**, a **Home Depot** was expected to **open in May** on the northeast corner of the mall. A 35,000-square-foot gourmet food store (i.e., Trader Joe's) is also part of the transformation, which will include outdoor dining, several plazas with small stores, and express government offices. **Dillard's and Robinsons-May** will remain at the mall, while the fate of a former Wards store is unknown.

A Pima County Superior Court **judge ruled** that **Westcor Partners** can **build a 320,000-square-foot shopping center** in the **northwest Foothills area** of Tucson. Called **La Encantada**, the shopping center project at North Campbell Avenue and East Skyline Drive was challenged by neigh-

bors and the county because of concerns over traffic. Westcor **expects the upscale project to be completed in 2003.**

Continued expansion by a market-leading **drug store chain** is among several **highlights** for the **retail trade** industry in the Old Pueblo. **Walgreen's**, which already has 33 drug stores in the Tucson area, plans to **add at least six more stores** (employing about 150 people) in the metro area **in 2001**. Walgreen's controls about 60 percent of the Tucson-area market, followed by Osco with 14 percent. ... A former Wal-Mart at 100 N. Pantano Road has been sold to **Sam Levitz Furniture**, which will **open its third furniture store** in Pima County. ... Tucson-based **Bookman's** will **open its third Tucson bookstore** and sixth statewide **in July**.

Work began in February on a \$2 million **Spanish territorial-style plaza in Tubac** — about 50 miles south of Tucson on Interstate 19 — that will feature **art studios and galleries, shops, and a restaurant**. The 16,000-square-foot development, called **La Entradade Tubac**, is expected to **open its doors in November**. The historic village of Tubac, which is now an arts colony similar to Tlaquepaque near Sedona, has about **90 businesses** and draws up to 2,000 people a day during the tourist season (January through April).

Services

The **University Medical Center** has **laid off 100 employees** and eliminated 75 other positions due to a \$5 million budget deficit. The layoffs will not include any nurses or other bedside-care personnel. During previous cutbacks, the hospital had been able to offer other jobs to those whose positions were eliminated.

Work has begun on a \$65 million **expansion** of the **Pascqua Yaqui Tribe's Casino of the Sun**, located about 15 miles southwest of Tucson on Valencia Road. The **first phase** of the 242,000-square-foot project, which will **open in September**, will include a 70,000-square-foot building that will be home to 500 slot machines, a 4,200-seat amphitheater, and a restaurant. Phase two, which the tribe expects to be completed in the fourth quarter of 2002, will feature six restaurants, a child-care facility, and an arcade. The final phase, expected to open in 2003, will include a hotel and golf course. **Employment** at Casino of the Sun is expected to **double to near 1,000** when the entire project is complete.

Keane Inc. is **selling its 675-employee call center** to an **unnamed company**. The customer-service operation, which was taken over from Microsoft Corp. in 1997, provides technical support to major software and hardware companies. Keane is selling its call-center operations in Tucson and Washington state to focus on its primary business — business and technical consulting. No information on potential growth or layoffs was released.

What a difference a year can make. **Tucson Medical Center (TMC)**, which eliminated 300 jobs (265 through

layoffs) in February 2000, is now **offering up to \$3,000 in bonuses** to employees who **bring in new non-management hires**. Job cuts and renegotiated insurance contacts put TMC on sounder financial ground, the hospital said.

The financial collapse of the company from which it leases its building forced **Carrington Care Center** to **close its nursing home facility** and **lay off 115 employees**. When Flower Square Limited Partners, which leased the building at 2502 N. Dodge Blvd. to Carrington, failed to meet its mortgage payments, Carrington was forced to close and was unable to make arrangements to move to another building.

Tucson-based **Running Start Inc.**, an Internet design and technical support company, **came to a dead halt** in early January when it was unable to collect payment from some of its accounts. About **60 employees lost their jobs**. The five-year-old company had laid off 30 other workers in October.

If you're good with your hands, then there may be a job for you at the new **Elizabeth Arden Spa at The Westin la Paloma resort** in Tucson. The 9,300-square-foot facility, which **employs more than 50 people**, offers 16 facial and massage rooms, a hair salon, steam and sauna rooms, a juice bar, and boutique. The spa opened in early January.

Balance of State

Mining

After years of complaints by local Indian tribes, the **White Vulcan Pumice Mine** closed March 1. **Tufflite Mining Company** ran the 15-year-old mine, which employed about 15 people, on the northeastern part of San Francisco Peaks. Congress paid the company \$1 million to stop mining and relinquish 49 other claims on the mountain, which is considered sacred by the tribes.

Construction

Universal Homes expects to **begin construction** on the first phase of the 3,400-home **Granville subdivision in Prescott Valley** by the **end of June**. Located on Glassford Hill Road, the first phase of the project includes 320 homes and a 5,600 square-foot community center with two swimming pools, spa, and tennis courts. Beginning next January, Universal plans to start construction on a 7,000-yard golf course. Further down the road, Universal plans to build a 39-acre entertainment center and a business park featuring high-tech jobs.

Ground has been **broken** on a 200-acre **Secret Pass Golf Club** in Bullhead City, east of Bullhead Parkway, about 2½ miles south of the Laughlin Bridge. The 18-hole championship course, expected to **open in late 2001**, will be surrounded by an **862-acre development** that will feature **up to 1,800 homes**. Work on the single-family dwellings will begin later this summer.

Transportation, Communications, and Public Utilities

Citizens Communications received approval from the

Arizona Corporation Commission to **take over local phone service in Yuma County** from Qwest Communications (formerly US West) in **late June**. Based in Stamford, Conn., Citizens Communications provides local and long-distance phone service in 17 states and employs 3,600 people. No specific information was released about employment in Yuma County, but for more information on the company, go to its web site (www.citizenscommunications.com).

Construction will **begin in July** on **expansion of Tucson's Electric Power's Springerville Generating Station**. The utility's parent company, UniSource Energy Co., and Bechtel Power Corp. agreed on a plan to **increase** from two to four the number of 380-megawatt coal-fired **power units** at the station. Completion of the project is expected in 2004 or 2005.

Trade

Construction began in March on a 140,000-square-foot **Home Depot** west of State Route 95 near the **Lake Havasu City Municipal Airport**. The store, which is expected to **open in September**, will **employ 175 people**.

Services

River Walk Development LLC has signed an agreement with the Fort Mojave Indian Reservation to **build three casino/hotels**, a recreational vehicle park, houses, and retail shops on 160 acres of reservation land in Laughlin, Nevada, which is directly across the Colorado River from Bullhead City, Arizona. The tribe wants to have the first phase of the project, the three casinos, open within two years. Fort Mojave is one of several Arizona tribes expanding into the resort business. About 200 miles southeast of Fort Mojave and 35 miles south of Phoenix, the **AK-Chin Indian Community** opened a 146-room **resort** next to its six-year-old casino in mid-March. The hotel, which like the casino is run by Hurrah's Entertainment Inc., is expected to **create 100 jobs**, bringing AK-Chin's total employment to 750. In addition, the **Gila River Indian Community**, a stone's throw from the AK-Chin tribe **broke ground** in late March on a 500-room **resort and golf course** (which will be run by Sheraton Hotels) at the tribe's Wild Horse Pass casino.

Services

Although some of their urban counterparts in Arizona are experiencing financial troubles, **hospitals in three rural areas** of the state are **healthy and thriving**. **Sierra Vista Regional Health Center**, which **employs around 500**, experienced 5.5 percent annual growth in admissions last year and a 23 percent growth in outpatient services. The hospital, which had net revenue of \$42 million in 2000, will be **opening** a \$1.5 million **diagnostic cardiac catheterization** unit in the near future, eliminating the need for patients to travel to Tucson. In the northwest part of the state, **Kingman Regional Medical Center** saw its emergency room visits rise by 7.3 percent over the past six months ending in March 2001, but was able to keep up with demand. In addition, not long after adding a number of new facilities (medical professional center, outpatient ra-

diology clinic), the hospital is **adding 70 beds** to its second and third floors. **Completion** of the \$23 million project is **expected in the fall**. Down the road about 75 miles, **work has begun** on the final phase of **Lake Halves Regional Medical Center's** \$30 million **expansion**. A **three-story addition** that will include **30 new beds** is expected to be **completed in November**.

Government

In mid-January, the Arizona Department of Commerce **expanded enterprise zones in Tucson and South Tucson** and renewed zone status for three other Arizona government entities — Tempe, Benson, and all of Pinal County. To qualify for an enterprise zone an area must have an average poverty level of 150 percent of the Arizona poverty average. Zone status provides income tax credits (up to \$3,000 per person over a three-year period) to non-retail businesses and property tax reductions for qualified manufacturing businesses. Shortly after the expansion was made public, **America Online** announced it would **add 80 employees** to its call center operation in Tucson, with the potential for another 80 within a year. America Online's call center had previously been located outside Tucson's enterprise zone.

Miscellaneous

Economic opportunities appear to be **on the rise** for **two rural areas** of the state that didn't experience much of the 1990s boom times. **La Paz County** and the Colorado River community of **Parker** have **enjoyed a strong tourism season the past three years**, partly at the expense of more populated areas in the state. Snowbirds have flocked to the western Arizona county, according to a Northern Arizona University study, partly because tourists are looking for less traffic, crime, and pollution. In 2000, **gross revenue from** areas of the economy affected by **tourism** (retail sales, services, hotel/motels) **rose 4½ percent**, or nearly \$5 million. Also, a \$52 million **Blue Water Resort and Casino**, which opened in October, is expected to **bring in more tourists**. Meanwhile, the **opening** of the final stretch of the **widened Beeline Highway** (to four lanes) between Phoenix and Payson in late April **may mean a pickup of tourism and other business**. The widened state Highway 87 should increase sales tax and stimulate economic development, said Payson Mayor Ray Schum in the weekly *Payson Roundup*.

Statewide

Government

The state passed **emergency legislation** to **create 116 new highway patrol positions** to monitor Phoenix and Tucson freeways. SB 1230 allocated \$26 million over the next two years for the additional Department of Public Safety officers. **Ninety-eight** of the positions will be located in **Maricopa County** and **18** will be in **Pima County**. **AET**